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Hungarian Food Chain Agrees to MOU Establishing Business Practices and Ethical Behavior

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Report Highlights:

The relationship between Hungarian food suppliers and the multinational owned-retail chains face the same challenges as in other countries. To avert any violent confrontations, Hungary's Minister of Agriculture led efforts to bring participants of the food chain together to discuss their issues. The "Best Practices" Memorandum of Understanding between various parties in Hungary's food chain will be difficult to enforce.

General Information:

Background

During the past decade, multinational and domestic retail chains (RC) have invested heavily in Hungary's retail sector and today control an estimated 80 percent share of the turnover of retail food

market. Because of current market conditions, which is marked by intense competition and a desire to source cheaper food products, Hungarian farmers and food processors are finding it difficult to compete with the RCs and their imports of cheaper food products. This difficult environment has ignited the fury of domestic food suppliers against the RCs, who are predominately owned by multinational corporations.

Farmers and food processors have accused the retailers of using unethical practices such as predatory pricing, higher listing and slotting fees, and unilateral reduction of the receipts of delivered commodities as a way of limiting domestic product offerings. These actions have led to an increase in anti-import sentiments among domestic suppliers and resulted in spontaneous demonstrations at hypermarkets, more commonly known as “wildcat” strikes. On the other hand, farmers and food processors are accused of not fulfilling their contractual obligations by not supplying goods on timely basis, particularly when seasonal prices and exporting domestic products are more profitable. These questionable business practices have also been used in other countries and have been listed as common retail food sector problems in a recent European Parliament report. (<http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&mode=XML&reference=A6-2009-0094&language=EN>)

Need for MOU

In an effort to diffuse the volatile situation between the various segments of Hungary’s food retail sector, the Ministry of Agriculture and Rural Development (MARD) facilitated a discussion to encourage the parties to come up with a solution. To facilitate the discussions, the MARD proposed a Memorandum of Understanding (MOU), which was referred to as the “Ethics Codex.” After several months of long and difficult negotiations, the participants all agreed to a MOU which would create a group to establish appropriate business practices and ethical behavior. The details were worked out by a 16-person team consisting of 4 delegates from each of parties. The MOU was signed by nine professional organizations on April 9, 2009. The signatories were the National Federation of Agricultural Producers and Cooperatives (MOSZ), Hungarian Chamber of Agriculture, National Federation of Food processors (EFOSZ), Milk Product Council, Hungarian Vegetable-Fruit Board, Livestock and Meat Product Council, Poultry Board, Hungarian Trade Association, National Federation of Consumer Cooperatives and Trade Partnerships.

The MOU stipulates the role of management and future developments of the agreement. A nine-member Ethics Committee will elect a Chairperson, collect data, review cases, and make proposals for the future amendments to the MOU. Minister of Agriculture, Jozsef Graf, attached a footnote to the Codex specifying that the Ministry will oversee the conditions necessary for the smooth operation of the MOU, which will come into force in July 2009.

MOU Details

The MOU agreed to in April outlines the general and specific goals that participants of the food supply chain should abide by to ensure fair and unethical market behavior in fulfilling contracts. The most important points of the agreement that may affect importers are as follows:

- 80% of all food supplies in food retail shops should be sourced domestically;

- Food retailers should not or must not import agricultural commodities to drive down domestic prices;
- Only surplus agricultural commodities, which cannot be sold in the domestic market, should be exported; and
- Food retailers should not/must not import agricultural/food products that have lost a major part of their shelf life.

Perspectives and Opinions of the MOU

Minister Graf's involvement in the negotiations ensured that the MOU would establish mutually agreed-upon ground rules that establish the norms of cooperation among the participants of the retail food sector and at the same time supply Hungarian consumers with safe domestic food. The Minister stressed that the MOU's aim was not to ban imported products from Hungarians store shelves, but rather to incorporate ethical business practices that are widely accepted in the EU. Furthermore, the Minister hoped the agreement would increase the market share for domestic Hungarian commodities to 80% from the present rate of 75%.

Representatives of trade associations and most retail chains viewed the MOU positively. They believed the voluntary MOU contained less rigorous rules than legislation that could have been enacted by the Parliament. In addition, they viewed the MOU as a mechanism to prevent "wildcat" demonstrations and other unethical suppliers' actions.

Some analysts note that farmers and food processors privately hoped that the agreement would have addressed the industry's organizational and efficiency issues, in addition to, limiting imports. Instead, farmers and food processors were the most disappointed about the MOU. They saw the agreement as strengthening the power of the retailers and intermediaries and believed the ethical standards were too general and unenforceable.

Market Impact

As a whole, the total value of Hungary's food processing sector decreased 15% between 2003-2008. Overall agricultural trade still shows about a €3 billion surplus, but imports, particularly the purchase of high value added products, have shown a faster rate of growth than exports.

The underlying objective of the MOU to give priority to domestic products is likely to have limited effect on U.S. imports, primarily because American exports consist mostly of raw materials and inputs (such as animal and plant genetics) rather than consumer goods. In 2007, U.S. agricultural exports to Hungary totaled US\$ 33.7 million with major products being animal and plant genetics, snack foods, tobacco, dried fruits and nuts, and beverages.

Representatives of the MOU signatories do not believe the document violates any EU or Hungarian directives. However, the Hungarian Competition Office is currently reviewing the document. The

voluntary agreement does not supersede any EU or member state law. Food retail chains and their suppliers in several new EU member states have made similar agreements in order to handle similar conflicts.